65

NUTRIENT BASED SUBSIDY POLICY FOR DECONTROLLED PHOSPHATIC & POTASSIC FERTILIZERS

MINISTRY OF CHEMICALS AND FERTILIZERS

PUBLIC ACCOUNTS COMMITTEE
(2016-17)

SIXTY FIFTH REPORT

SIXTEENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

PAC NO. 2098

SIXTY FIFTH REPORT

PUBLIC ACCOUNTS COMMITTEE
(2016-17)

(SIXTEENTH LOK SABHA)

NUTRIENT BASED SUBSIDY POLICY FOR DECONTROLLED PHOSPHATIC & POTASSIC FERTILIZERS

MINISTRY OF CHEMICALS & FERTILIZERS

Presented to Lok Sabha on: 17.03.2017

Laid in Rajya Sabha on: 17.03.2017

LOK SABHA SECRETARIAT
NEW DELHI

March, 2017 /Phalguna, 1938 (Saka)

CONTENTS

PAGE

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2016-17) (iii)

COMPOSITION OF THE SUB-COMMITTEE-IV OF PUBLIC ACCOUNTS COMMITTEE (2016-17) (iv)

INTRODUCTION ..... (v)

REPORT

PART I

I	Introductory	1
II	Imbalanced use of NPK proteins	2
III	Decline in the production of indigenous fertilizers	4
IV	Huge pendency of Proforma 'B'	6
V	Excess payment on lump sum freight subsidy for SSP	7
VI	Non-recovery of undue benefits on use of domestic gas	9
VII	Unreasonable fixing of benchmark price for DAP	12
VIII	Quality control checks	13
IX	Setting of unrealistic MSP without proper assessment	14
X	Reasonableness of MRPs fixed by fertilizer companies	15

PART II

Observations/ Recommendations..... 19

ANNEXURES

A	Minutes of the sitting of the Sub-Committee-IV of PAC (2015-16) on 18.01.2016
B	Minutes of the sitting of the Sub-Committee-IV of PAC (2016-17) on 09.09.2016
C	Minutes of the sitting of the Public Accounts Committee (2016-17) on 10.02.2017

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2016-17)

Prof. K.V. Thomas - Chairperson

MEMBERS

LOK SABHA

2. Shri Sudip Bandyopadhyay
3. Shri Prem Singh Chandumajra
4. Shri Nishikant Dubey
5. Prof. Richard Hay
6. Shri Gajanan Chandrakant Kirtikar
7. Shri Bhartruhari Mahtab
8. Smt. Riti Pathak
9. Shri Neiphiu Rioh
10. Shri Janardan Singh Sigriwal
11. Shri Abhishek Singh
12. Dr. Kirit Somaiya
13. Shri Anurag Singh Thakur
14. Shri Shivkumar C. Udasi
15. Dr. P. Venugopal

RAJYA SABHA

16. Shri Naresh Agrawal
17. Shri Satyavrat Chaturvedi
18. * Shri Bhupender Yadav
19. Shri Bhubaneswar Kalita
20. Shri Shantaram Naik
21. Shri Sukhendu Sekhar Roy
22. Shri Ajay Sancheti

SECRETARIAT

1.	Shri A.K. Singh	-	Additional Secretary
2.	Shri S.C Chaudhary	-	Joint Secretary
3.	Shri T. Jayakumar	-	Director
4.	Shri Paolienlal Haokip	-	Deputy Secretary

* Elected w.e.f. 09.08.2016 *vice* Shri Vijay Goel, MP appointed as Minister of State w.e.f. 05.07.2016.

Sub-Committee – IV [Non-compliance by Ministries/Departments in timely submission of Action Taken Notes on the Non-selected Audit Paragraphs (Civil and other Ministries)] of PAC (2016-17)

Convenor	:	1.	Shri Bhartruhari Mahtab
Alternate Convenor	:	2.	Shri Gajanan Chandrakant Kirtikar
Members	:	3.	Shri Nishikant Dubey
		4.	Dr. P. Venugopal
		5.	Shri Ajay Sancheti
		6.	Shri Shivkumar C. Udasi

INTRODUCTION

I, the Chairperson, Public Accounts Committee (2016-17), having been authorised by the Committee, do present this Sixty Fifth Report (Sixteenth Lok Sabha) on 'Nutrient Based Subsidy for decontrolled Phosphatic & Potassic Fertilizers' based on Report No.16 of 2015 of Comptroller and Auditor General of India for the year ended 31 March, 2014, Union Government (Department of Fertilizers) Ministry of Chemicals and Fertilizers.

2. The Report of the Comptroller and Auditor General of India was laid on the Table of the House on 8th May, 2015.

3. The Public Accounts Committee (2016-17) took up the subject for detailed examination and report. The Sub-Committee-IV was constituted under the Convenorship of Shri Bhartruhari Mahtab, M.P and Member of PAC that took evidence of the representatives of the Ministry of Chemicals and Fertilizers on the subject at their sittings held on 18th January, 2016 and 9th September, 2016. Accordingly, a draft Report was prepared and finalized by the Sub-Committee and placed before the Committee for their consideration.

4. The Committee considered and adopted this draft Report at their sitting held on 10th February, 2017. Minutes of the sittings are appended to the Report.

5. For facility of reference and convenience, the Observations/Recommendations of the Committee have been printed in bold and form Part II of the Report.

6. The Committee would like to express their thanks to the representatives of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) for tendering evidence before them and furnishing information in connection with the examination of the subject.

7. The Committee place on record their appreciation of the assistance rendered to them in the matter by the office of the Comptroller and Auditor General of India.

NEW DELHI;
14 March, 2017
23 Phalguna, 1938 (Saka)

PROF. K.V. THOMAS
Chairperson,
Public Accounts Committee

REPORT

PART – I

I INTRODUCTORY

This Report is based on Report No.16 of 2015 of Comptroller and Auditor General of India for the year ended 31 March, 2014, Union Government (Department of Fertilizers) Ministry of Chemicals & Fertilizers relating to 'Nutrient Based Subsidy Policy for decontrolled Phosphatic & Potassic Fertilizers'.

2. The Sub-Committee –IV of Public Accounts Committee took up the subject for detailed examination and took oral evidence of the representatives of the Ministry of Chemicals and Fertilizers and obtained written replies on the subject. Based on these oral evidences and written replies, the Sub-Committee examined the subject in detail.

3. The Government of India (GoI) had introduced a 'Concession Scheme for decontrolled Phosphatic and Potassic (P&K) fertilizers' in 1992 which continued up to 31 March 2010. The basic objective of the Concession Scheme was to provide P&K fertilizers to farmers at affordable prices. The Maximum Retail Price (MRP) of P&K fertilizers was fixed by Government at a level lower than the actual cost and the difference between the actual cost and MRP was reimbursed by Government to manufacturers/importers in the form of subsidy.

4. The Department of Fertilizers (DoF) notified a new scheme i.e. "Nutrient Based Subsidy" (NBS) w.e.f. 1 April 2010 in order to improve agriculture productivity, ensure balanced use of fertilizers, promote growth of indigenous fertilizer industry and to reduce the burden of subsidy. Under NBS Policy, MRP of P&K fertilizers has been left open and the manufacturers/importers/marketers are allowed to fix MRP of P&K fertilizers at

'reasonable level'. Subsidy is determined on the basis of the nutrient contained in the fertilizers i.e. 'N' (Nitrogen), 'P' (Phosphate), 'K' (Potassium), and 'S' (Sulphur). NBS to be paid on each nutrient is decided annually by the Government.

5. State Governments intimate their requirements of fertilizers to the Department of Agriculture and Cooperation (DAC), which is conveyed to DoF for arranging supplies by fertilizer companies to the States. Distribution and movement of fertilizers are monitored by DoF through the online web based Fertilizer Monitoring System (FMS).

6. In their Report, Audit has made the following observations on the objectives and implementation of the Nutrient Based Subsidy policy:

A. IMBALANCED USE OF NPK NUTRIENTS

7. Audit has pointed out that the preferred proportion of usage of NPK nutrients is 4:2:1. 'N' which was at 4.3 in 2009-10, jumped to 8.2 in 2012-13, as farmers preferred Urea, containing 'N', because it was cheaper than P&K fertilizers. Such a practice had an adverse effect on soil fertility. Thus, NBS Policy did not promote balanced fertilization.

8. The Ministry has submitted that through the NBS Scheme, the freedom of fixation of prices by the companies, equal subsidy for both indigenous and imported P&K fertilizers enabled to ensure adequate availability of fertilizers in the country. After NBS Scheme, 5 more fertilizer grades were included in subsidy scheme and at present 21 grades of P&K fertilizers are provided to farmers at subsidised rates. In addition, all these subsidised P&K fertilizers fortified with Boron and Zinc as provided under FCO are made eligible for additional subsidy of Rs.300/MT and Rs.500/MT so as to promote use of micro-nutrients and balanced application of fertilizers. However, these special benefits extended under NBS Policy could not help bringing in balanced application of fertilizers particularly in some northern states, Punjab and Haryana and in states of Rajasthan and Madhya Pradesh.

The Ministry further stated that one of the reasons identified in deterioration in the NPK ratio in these States is higher consumption of Urea due to its low price as compared to P&K fertilizers and farmers preference for application of Urea. The achievements of the NBS policy cannot be assessed in isolation, without taking into consideration the reforms in Urea sector. One of the recommendations of the IMG was to bring Urea under the NBS policy in a phased manner, which has not happened.

9. When asked about the measures undertaken by the Department of Fertilizers to ensure proportionate use of nutrients besides ensuring better soil fertility, the representatives of the Department stated as follows:

> "One major initiative that we have taken is neem-coating of urea. Now, all the urea that we have domestically produced or imported- and the annual consumption is in the range of about 32 million tonnes- is now neem coated. The advantages of neem coating of urea are: (1) it increases productivity (2) it improves soil health because, as you said, the excess use of nitrogen causes damage to the soil because of formation of nitrates. They are to a large extent arrested by the fact that the urea is need coated."

10. With regard to the issue of imbalance use of nutrients, the Ministry have stated as follows:

> "Imbalance in soil fertility is addressed with multiple strategies/schemes through different Government Departments/agencies. Through NBS Policy, this is expected to be addressed in following ways:
>
> i) By making available these fertilizers adequately and also bringing various NPK complex grades into NBS Scheme so as to provide wider choice to farmers.

ii) By providing subsidy on fortified subsidised fertilizers with Boron and Zinc.

iii) Freedom in price fixation and business will allow the companies to increase production and new marketing strategies and bring innovations besides providing extensive services to farmers.

iv) Promotion of competition among the companies to ensure reasonable prices to farmers.

After implementation of NBS Scheme, the freedom of fixation of prices by the companies, equal subsidy for both indigenous and imported P&K fertilizers enabled to ensure adequate availability of fertilizers in the country. After NBS Scheme, 5 more fertilizer grades were included in subsidy scheme and at present 21 grades of P&K fertilizers are provided to farmers at subsidised rates. In addition, all these subsidised P&K fertilizers fortified with Boron and Zinc as provided under FCO are made eligible for additional subsidy of Rs.300/MT and Rs.500/MT so as to promote use of micro-nutrients and balanced application of fertilizers."

B. DECLINE IN THE PRODUCTION OF INDIGENEOUS FERTILIZERS

11. Audit in its Report has observed that despite the stated objective of NBS Policy to improve growth of indigenous fertilizer industry, production of P&K Fertilizers by the indigenous fertilizer industry declined. During the NBS regime there was neither any addition in the number of fertilizer plants nor was there any increase in the installed capacity of these fertilizer plants during the period when NBS Policy was implemented (2010-11 to 2013-14). In fact the number of plants, and their installed capacities, remained static since 2003-04. Though the number of plants remained the same even in 2013-14, installed capacity increased marginally by 10.33 LMT and 8.49 LMT for DAP and Complex Fertilizers, respectively, during that year. Further, there was no incentive for the companies to import raw material/intermediaries and produce

finished goods, instead of importing finished products, as NBS did not differentiate between fertilizer companies which imported raw materials to manufacture finished products and those which imported finished products. Therefore, the fertilizer companies preferred to import the finished product. DoF contended (October 2014) that without logistics provided by GoI or available in the country, no company would venture into fertilizer business; when establishment of fertilizer companies involved large investments. Hence, there were no investments in P&K fertilizer sector even after introduction of NBS Policy. As regards incentive to indigenous industry for importing raw materials/intermediaries, DoF had already taken up the matter of reduction in customs duty for raw material with Ministry of Finance.

12. The Department of Fertilizers also submitted that the NBS Scheme allows the fertilizer companies to fix the MRP of their products at reasonable level as per market dynamics. With this, the fertilizer companies have the freedom to change the MRP based on their input price, operational expenses, profits etc and compete with other fertilizer companies under different sectors viz. private, Cooperative, PSUs and importers. Thus, it was expected that this freedom of doing business as per market dynamics would attract new investors to the fertilizer industry. However, since the indigenous fertilizer production involves large investments, 100% dependence on imports for raw materials the response for new investments is not encouraging. The Department further stated that the increase in indigenous production depends on availability of fertilizer raw material and natural gas in the country. However, there is no known source of potash reserves in the country and for phosphate the country depends on imports for its 90% requirement. Natural gas in the country is scarce and the domestic gas earmarked for fertilizer sector has been allocated exclusively for Urea. Production of ammonia required for producing P&K fertilizers through imported RLNG is very costly as compared to imported ammonia. Under the above conditions, indigenous production of P&K fertilizers is not always viable. Hence, most companies

deal in imports to fill the gap as the imported finished fertilizers are cheaper as compared to indigenous production in many cases.

13. In order to ensure long term availability of raw materials/ intermediaries, Indian companies are encouraged to enter long-term off-take contracts at concessional rates, Joint Ventures to acquire mines in resource rich countries. The Department of Fertilizers also stated that a large number of Single Super Phosphate (SSP) units have come up after NBS policy and the number of SSP units has increased from 73 in 2008-09 to 100 in 2014-15. Even the production of SSP has also increased from 25.34 LMT in 2008-09 to 42.14 LMT in 2014-15. The Government has been promoting the production and use of SSP, which is a cheap source of phosphate and can be produced by using low grade raw material and also provides micronutrients to the soil in form of sulphur and calcium.

C. HUGE PENDENCY OF PROFORMA 'B'

14. In its Report Audit has highlighted that there was huge pendency of Proforma 'B', which was the basic reconciliation tool for cross verification of information pertaining to quantity and quality of fertilizers supplied by fertilizer companies with information provided in the mobile Fertilizer Monitoring System (FMS) by the State Government. 4112 Proforma 'B' were pending in respect of P&K fertilizers, pertaining to the period 2007-08 to 2013-14, as of 31 October 2014. Out of these, 3899 related to the period when NBS Policy was in force.

15. When asked whether any critical review has been conducted on the existing monitoring mechanism of receipt and pendency of proforma 'B' so as to arrest pendency of such proforma, the Department stated as follows:

> "Pendency of Performa B is reviewed regularly in Department of Fertilizers. However, as per policy if the quantity certificate (Proforma-B1) is not received within 30 days, then it is deemed to have been

received. Thus there is no compelling provision in policy to force State Government to submit Proforma-B.

Department of Fertilizer has regularly been taking up the matter with the Chief Secretary, Principal Secretary (Agriculture) and concerned Director (Agriculture) of all State Governments. Besides the written requests to the State Governments concerned authorities are also contacted over phone to expedite furnishing of Proforma-B certificates requesting telephonically. The matter has also been taken up by the DOF in Department of Agriculture, Cooperation and Farmers Welfare in Video Conferences with State Governments. The Pendency has come down."

16. When asked about the present status of post-NBS pending Proforma-B and whether the Department of Fertilizers has any time bound plan to clear the long pendency of Proforma-B, the Department stated that due to persistent efforts and close monitoring of the outstanding amount of Rs.50,587 crores of Proforma-B for the period 2007-08 to 2009-10, the amount has been brought down to Rs.427.85 crores as on 05.01.2016. Further, the amount of outstanding Proforma-B for the period from 2007-08 to 2015-16 is Rs.23,570.80 crores as compared to outstanding Proforma-B of Rs.50,587 crores for the period from 2007-08 to 2009-10. As regards time bound clearance of pendency of Proforma B, the Department stated that the responsibility to issue the quantity certificate lies with the State Governments. Department of Fertilizers has no other option but to pursue the matter with the State Government regularly and make efforts to clear the pendency of Proforma-B."

D. EXCESS PAYMENT ON LUMP SUM FREIGHT SUBSIDY FOR SSP

17. Audit highlighted that prior to introduction of NBS policy for SSP, no freight subsidy was being paid for movement of SSP reportedly due to the fact that SSP was basically a localized product, catering to the local needs.

However, after marketing of the product by large P&K/Urea fertilizer manufacturers/importers in different States, SSP had started moving from one State to another. Resultantly, in NBS Policy, SSP was made eligible for Secondary Freight subsidy. The element of Secondary Freight subsidy inbuilt in NBS rates of SSP was Rs.104 PMT which was being paid from May 2010 to December 2010. However, after removal of the Secondary Freight element from NBS Policy, on the recommendation of IMC, a lump sum freight subsidy at the rate of Rs.200 PMT was introduced for SSP. Audit felt that when the implication of removal of Secondary Freight subsidy was only Rs.104 PMT, additional payment of Rs.96 PMT (Rs.200-Rs.104) was not justified and resulted in excess payment of Rs.25.74 crore.

18. Noting that while the implication of removal of secondary Freight subsidy was only 104 PMT, when the Committee enquired as to why a lump sum freight subsidy at the rate of Rs.200 PMT was introduced for SSP, which has resulted in excess payment of Rs.25.74 crore, the Department stated as follows:

"The lump sum freight of Rs.200/MT on SSP was reimbursed based on the decision of the IMC and approval by the CCEA.

The lump sum freight of Rs.200/MT allowed for movement of SSP from 1.1.2011 to 31.8.2011 was not in lieu of the secondary freight component removed from the calculation of NBS rates from 1.1.2011 as reported by Audit.

It is stated that there was no freight subsidy on primary movement of SSP. Thus, the lump sum freight of Rs.200/MT on SSP was in lieu of both primary freight and secondary freight.

The Audit has not examined the alleged excess payment of freight subsidy on SSP from the view point of whether the SSP companies, which received freight subsidy, has been passed on the

benefits in the form of lower MRP or not. Hence, the conclusions drawn by Audit are not based on substantive facts."

19. Audit further pointed out that the IMC recommended a lump sum freight subsidy at the rate of Rs.200 PMT, although the effect of removal of Secondary Freight subsidy element from the existing subsidy of SSP was Rs.104 PMT only. Further, in the context of the contention of DoF that freight subsidy was not in lieu of Secondary Freight, it was observed that DoF, while seeking views of DoE (September 2011) on the date from which recovery at the rate of Rs.96 PMT may be made, had stated clearly that this subsidy was in lieu of removal of Secondary Freight. Moreover, the lump sum freight subsidy for SSP at the rate of Rs.200 PMT was provided only for eight months i.e. from 1 January 2011 to 31 August 2011 for which DoF had taken ex-post facto approval from CCEA on 3 July 2012. One of the reasons for according approval to above payment by CCEA was that lump sum freight subsidy payments had already been made to SSP industry till 31 August 2011. Further, removal of freight subsidy in August 2011 itself (Secondary Freight in respect of other NPK fertilizers was withdrawn w.e.f April 2012) and no payment on account of primary freight to SSP thereafter was indicative of the fact that the decision to make payment of lump sum subsidy at the rate of Rs.200 PMT instead of Rs.104 PMT, did not have a sound basis and hence, the reply of DoF appears to be an after-thought.

E. NON-RECOVERY OF UNDUE BENEFITS ON USE OF DOMESTIC GAS

20. Audit has pointed out that the cost of production of Ammonia (using domestic/APM gas) was cheaper as compared to use of imported Ammonia for production of complex fertilizers. The Empowered Group of Ministers (EGoM) directed (February 2012) DoF to finalize guidelines for effecting recovery of undue benefits that had accrued to P&K manufacturing fertilizer companies which used domestic gas. Further, Minister of State for Chemicals & Fertilizers directed (November 2013) that pending finalization of guidelines,

DoF should initiate 'adhoc' recovery which was notified in January 2014. However, DoF neither finalized the guidelines to effect such recovery from fertilizer companies nor made 'adhoc' recoveries even after expiry of two years from the direction of EGoM. Financial impact on account of this non-recovery could not be worked out by Audit due to non-availability of data on use of Ammonia for production of Urea vis-à-vis P&K fertilizers.

21. In reply to the findings of Audit, the Department have stated as follows:

"The issue of recovery of undue benefits due to use of domestic gas is a very complex one. There are three issues involved in it. One is continuation of domestic gas to the three companies, RCF, GSFC and DFPCL; the second one is the date from which the recoveries to be made and the last one is, the formula for recovery. Continuation/discontinuation of gas involves survival of these companies particularly the RCF, a PSU, which is having an integrated ammonia plant used for both urea and P&K fertilizer production besides production of some chemicals. Any reduction in gas to RCF lead to operation the ammonia plant at reduced capacity and this is technically unviable. Similar is the case of GSFC and the company is mostly funded by state financial institutions and headed by a senior IAS Officer from the State Govt. of Gujarat.

The DFPCL is the only private company exclusively producing one complex grade (24:24:0). In respect of this company the Department has already discontinued supply of domestic gas. These three companies have been supplying domestic gas since more than 30 years under various agreements and when there were no takers for domestic gas. Discontinuation of gas supply to RCF on account of P&K fertilizers would lead to discontinuation of its exclusive complex fertilizer grades popular in various regions and used for specific crops. This may lead to hue & cry amongst many farmers. Alternative arrangement for

production of these fertilizers for RCF is a lengthy process and need creation of infrastructure involving huge capital investment.

The three companies produce more than 14 LMT of complex fertilizers per year. The effect of discontinuation of domestic gas to these companies on prices of other complex grades due to loss of production and dependence on more imports is likely to be huge in view of country's dependence on phosphatic fertilizers upto 93% and 100% on potassic sector. Further, there are no provisions under the NBS policy for recoveries on account of cheap raw material supply. This has legal implications.

The issue of recovery formula has varied complications due to varied nature of the fertilizer production and different feed stocks used by different companies. All these issues need detailed examination by stakeholder Departments etc. Further, Government is supplying cheap APM and non-APM gas to some industries such as steel, ceramic, which are not subsidised and market driven. Non-supply of gas for P&K fertilizer companies while supplying cheap domestic gas to industries producing non-subsidised problems makes difficult for taking decision on discontinuation of gas to the three P&K fertilizer units. The legal issues and court directions/ proceedings also came in the way of framing guidelines.

During the course of framing guidelines of recovery, it was decided to constitute an IMC to look into all aspects and to submit its recommendations on the three issues of continued gas supply, recovery formula and date of recovery. The IMC had already had five meetings. The last meeting was held on 19-1-16 and it was decided to carry out a study through EIL to suggest recovery formula. As regards supply of gas, the MoP&NG has issued some guidelines to GAIL for allocation of gas to P&K fertilizer companies at different rates and the IMC noted the guidelines of the MoP&NG.

As regards recovery of undue benefits on ad-hoc basis, the Department is withholding subsidies from RCF from each monthly subsidy bill and in respect of DFPCL no subsidy has been paid since 10-10-2014. In respect of GSFC no recoveries are made due to court order restraining the Department not to take any coercive action due to the ad-hoc recovery order."

UNREASONALBLE FIXING OF BENCHMARK PRICE FOR DAP

22. Audit has highlighted that the recommended benchmark price for DAP in November 2010 was US$ 450 PMT. The Benchmark price considered for fixation of subsidy on DAP for 2011-12 in November 2010, was lower than the prevailing import/procurement rates because of which the fertilizer companies were not able to finalize contracts with international fertilizer suppliers. Majority of the fertilizer companies were importing/procuring DAP, at rates ranging between US$ 495 PMT - US$ 498 PMT during May 2010 to November 2010. A series of negotiations took place between DoF and Fertilizer Industry during February and March 2011. During the intervening period, the landed price for DAP rose. Finally, the benchmark price for fixation of subsidy for DAP for 2011-12 was notified at US$ 612 PMT in May 2011 by DoF. This was more than 35 per cent higher than the benchmark rate fixed initially. Audit further stated that by not fixing the benchmark price at reasonable level in November 2010, GoI lost an opportunity of saving subsidy of Rs.5555 crore.

23. In reply to the observations of Audit the Department of Fertilizers stated as follows:

"Finalisation of contracts for import of fertilizers and raw materials is commercial decisions of the fertilizer companies, whereas the priority of the Government is to make fertilizers adequately available to farmers when they need the most. During 2011-12, there was upward trend in

the prices of P&K fertilizers. Despite fixation of NBS Rates2011-12 at the prevailing international prices, there were no contracts and imports leading to inadequate movement of fertilizers. The reason for no imports was high international prices and low prevailing domestic prices. At the subsidy rates announced at that time, the fertilizer companies perhaps were not in a position to sell their products at higher MRP in the market and earn profits. Non-contracting by fertilizer companies would have lead to non-availability of fertilizers to farmers. Even if imports were taken place, the fertilizers were available to farmers at much higher MRP.

The decision for revision of subsidy rates in 2011-12 twice was taken by the Cabinet on the recommendations of IMC based on the situation prevailing at that time and the justification for revision has been well documented. The observations of the Audit that delayed finalization of such contracts leading to additional subsidy burden on GOI are based on limited focus on Govt subsidy burden and not based on other factors."

QUALITY CONTROL CHECKS

24. Audit in its Report pointed out that Fertilizer Control Order, 1985 (FCO) lays down the procedure for analysis of fertilizer samples collected and time limit for analysis, and communication of results. Schedule II of the FCO and various amendments thereto contain detailed procedure for drawal of fertilizer samples from lots/bags, big/small godowns, high stacking, etc. by the enforcement agencies. Audit stated that there were 78 Fertilizer Quality Control Laboratories (FQCLs) located in various States including four laboratories of Government of India at Faridabad, Kalyani (Kolkata), Mumbai and Chennai for testing the samples collected. State-wise and year-wise figures (2010-11 to 2013-14) of the analyzing capacity of FQCLs in various States furnished by DoF revealed that the analyzing capacity consistently

remained under-utilized in some States whereas number of samples tested was more than the capacity in other States.

25. When the Committee sought information on the measures under taken by the Department to ensure efficient and optimum use of the 78 FQCLs across the country and improve the overall effectiveness of fertilizer quality control mechanism, the Department has stated that quality control of fertilizers is the mandate of Department of Agriculture, Cooperation and Farmers Welfare and information on the measures taken for improvement of the quality control mechanism is awaited.

SETTING OF UNREALSITIC MSP WITHOUT PROPER ASSESSMENT

26. Audit in its Report stated that month-wise and State-wise demand of fertilizers are assessed and projected by DAC in consultation with the State Governments. The same is conveyed to DoF as the Department is mandated to fulfil the requirement of the State from available resources. Audit, however pointed out that Monthly Supply Plan (MSP) in respect of decontrolled P&K Fertilizers, as issued to fertilizer companies as well as to States, was not based on realistic assessment of requirements. Quantity actually supplied by the companies was being regularized without any link with the quantity mentioned in MSP. In some cases, higher quantities were regularized without even assigning any reason. Notwithstanding the fact that the fertilizer companies and DAC intimated DoF regarding the availability and requirement of the fertilizers in advance, DoF did not work out a realistic MSP on the basis of the requirements in the field.

27. When asked as to why the Department has regularised quantity of fertilizers supplied by the companies without linking the quantity mentioned in the MSP issued to the companies, the Department stated as follows:

"Before the start of each season, about 1-2 months in advance, Department of Agriculture, Cooperation & Farmers Welfare (DAC&FW) organises conferences of all stake holders that includes all States Govt., Department of Railways, Fertilizers Association of India, Manufacturers and importers etc. to assess requirement of fertilizers. Thus, the demand of fertilizers for a state is assessed much in advance before the commencement of the each season. The projection is made on the basis of consumption during previous seasons, area proposed to be sown, forecast for rainfall etc. Though DAC&FW has taken various measures to ensure the process of assessment of fertilizers more rational, scientific and realistic, the actual consumption depends upon actual conditions prevailing during the season which changes the actual demand of fertilizers by farmers on real time basis. Needless to say that the prime factor for assessment is monsoon, which is itself very unpredictable.

Monsoon, despite being scientifically assessed cannot be predicted with 100% certainty and with all the technology in service of IMD, the prediction itself is with some percentage variations. Therefore, when the basic input (forecast of monsoon) cannot be predicted with certainty the output i.e. the requirement of fertilizers for any season cannot be assessed precisely and thus there will be always a tendency to over project the requirement."

REASONABLENESS OF MRPs FIXED BY FERTILIZER COMPANIES

28. Audit pointed out that under the NBS Policy MRP of P&K fertilizers was left open and manufacturers/importers/marketers fix the MRP of these fertilizers at a reasonable level. The word 'reasonable' was, however, neither explained/defined in the Policy nor did DoF issue any implementation guidelines. In the absence of any mandatory requirement for preparation of cost sheet in respect of subsidized fertilizers, DoF did not have any mechanism to assure itself about necessity/reasonability of all the

components included in the cost and several irregularities arose in the implementation of the Policy by companies such as unreasonable fixing of fertilizer price, non-provision of cost sheet to audit, unreasonable loading of cost component on MRP, unjustified fixation of MRP etc.

29. Audit highlighted the following instances of unreasonable loading costs in MRP:

IFFCO added Rs.142 PMT as 'loss on sale of fertilizer bond' as a component of cost for fixing MRP of DAP (imported) during 23 September 2011 to 30 May 2012. Financial impact of above loading was Rs.9.89 crore.

Increased subsidy on opening stock of imported DAP as on 1 April 2011, amounting to Rs.4.41 lakh, was recovered by DoF from IFFCO which in turn, added Rs.40 PMT as 'loss on mopping up of subsidy' as a cost component for fixing MRP of imported DAP. This resulted in undue profit of Rs.2.59 crore to the Company.

Purchase cost of DAP by some companies was less than the benchmark price of US$ 500 PMT considered by DoF for fixation of subsidy for the year 2010-11. In the absence of any cost sheet of the calculation of MRPs for such products and no separate verification mechanism in DoF, Audit could not verify whether the benefit of such lower cost of purchase was passed on to farmers through a reduction in MRP.

Partial modification in NBS Policy for payment of secondary freight subsidy in line with 'Uniform Freight' w.e.f 1 January 2011, resulted in withdrawal of inbuilt freight subsidy by Rs.300 PMT in the case of DAP. It was, however, observed that subsequent to the said notification, Chambal Fertilizer and Chemicals Ltd. (CFCL), Indian Potash Limited (IPL) and IFFCO increased their MRP for DAP by Rs.800 PMT. Though no specific reasons were available for such

increase of MRP by IFFCO and IPL, CFCL had cited withdrawal of inbuilt secondary freight subsidy as the reason.

30. In reply to the findings of Audit on the losses on account of sale of bonds and subsequent reimbursement, cost data analysis and reasonableness of MRPs fixed by the companies, the Department of Fertilizers stated as follows:

"The fertilizer companies incurred losses on account of sale of bonds, which had been issued to them in lieu of cash subsidy. Based on the decision of the Cabinet, it was decided to reimburse 50% of losses incurred by the companies on account of bonds sold by them within the time limit provided to them. Government has not incurred any losses on account of buy back of bonds from the fertilizer companies. Hence, the question of recovery of losses does not arise.

Government has already reimbursed 50% of the losses caused to the fertilizer companies on sale of fertilizer bonds to Govt. The Fertilizer Association of India has filed a writ petition in the Delhi High Court seeking relief for reimbursement of remaining 50% losses incurred on account of sale of fertilizer bonds issued to them in lieu of cash subsidy and for purchase of remaining fertilizer bonds held by them besides bearing the losses on purchase of remaining bonds. The Government is defending the case.

It has been made mandatory for the fertilizer companies to furnish cost data in prescribed format from 2012-13 onwards. The certified Cost Accountants duly appointed for analysis of cost data in their analysis report certified that the MRPs fixed by the fertilizer companies for 2012-13 are reasonable. In respect of 2013-14, the analysis process has already been initiated and reports from many Cost Accountants have been received and are under examination.

It was decided to examine the reasonableness of MRP fixed by fertilizer companies from 2012-13 onwards. Under NBS scheme there was no such provision for examining reasonableness of MRPs fixed by fertilizer company prior to 2012-13.

It has been made mandatory for the fertilizer companies to submit cost data of each subsidised fertilizer on which subsidy has been claimed for examination of reasonableness of the MRPs. The Department has appointed Cost Accountants for analysis of cost data submitted by the fertilizer companies to find out reasonableness of MRPs fixed by these companies."

PART-II

OBSERVATIONS/RECOMMENDATIONS

On perusal of the Audit Report, oral evidence tendered by the representatives of the Department of Fertilizers and written replies furnished by the Department, the Committee find a number of deficiencies in the implementation of the Nutrient Based Policy (NBS) which was introduced in April, 2010. The Committee note that the objectives of NBS, namely to improve agriculture productivity, ensure balanced use of fertilizers, promote growth of indigenous fertilizer industry and to reduce the burden of subsidy have not been achieved. On the contrary, the Committee find steep rise in the use of Urea, which has Nitrogen (N) as its primary nutrient, leading to imbalance use of nutrients, decline in the production of indigenous fertilizers and deterioration of soil health. The Committee also find irregularities like avoidable payment of subsidy, excess payment on lump sum freight subsidy for Single Super Phosphate (SSP), non recovery of gains from Phosphate & Potassium (P&K) manufacturing companies for using cheaper domestic/APM gases, Sales of SSP without assessing requirement, unreasonable loading of cost component on MRP, unjustified fixation of MRP etc. Based on these findings, the Committee have made the following observations/recommendations for improvement in the overall implementation of the NBS policy.

TARGET ORIENTED APPROACH

1. The Committee note that 'Nutrient Based Subsidy' (NBS) Policy was introduced in April, 2010, with the objectives to improve agriculture productivity, ensure balanced use of fertilizers, promote growth of indigenous fertilizer industry and to reduce the burden of subsidy. The Committee observe that the policy has not made any significant progress towards achieving these objectives. The Committee are of the

view that for the successful implementation of any scheme or policy of the Government which will have a far reaching consequences on the welfare of the people, particularly, farmers and peasants community, there should be a well-defined road-map for achieving the stated objectives of the policy which may, inter-alia, indicate quantifiable derivables and specific timelines for achieving the objectives. To their utter surprise, the Committee find that neither was there any clear road map nor any timelines indicated towards implementation of the said scheme. The Committee, therefore recommend that the Department need to adopt a target oriented approach without any further delay and set specific timelines with a strong and in-built monitoring mechanism for achievement of each of the objectives and ensure overall success of the policy. The steps taken in this regard be intimated to this Committee.

IMPLEMENTATION OF AN EFFECTIVE UREA POLICY

2. The Committee note that the preferred proportion of usage of NPK nutrients. ['N' (Nitrogen), 'P' (Phosphate) and 'K' (Potassium) is 4:2:1. The Committee further note that 'N' which was at 4.3 in 2009-10 had jumped to 8.2 in 2012-13 as farmers preferred Urea, containing 'N' because it was cheaper than P&K fertilizers. The steep rise in the use of Urea had not only stunted the production of indigenous P&K fertilizers but also adversely affected soil health and fertility. The Committee expressed serious concern on the alarming raise in the percentage of farmers opting for urea as the primary choice of fertilizer resulting in an imbalanced usage of fertilizers and deterioration of soil health. The Committee are of the view that imparting proper training and educating farmers on the long term benefits of maintaining optimum soil health and the importance of implementing a balanced use nutrients, would go a long way towards arresting the rising trend in the use of urea as the primary fertilizer. The Committee, therefore, recommend that a proper urea policy need to be devised to ensure balanced usage of fertilizers.

The Committee further recommend that while the Department may impress upon the States to conduct trainings and field demos on the benefits of using balanced fertilizer nutrients, the Department may also periodically organize melas, demonstrations, at the national level to sensitise the farmers across the country regarding the benefits of using balanced fertilizer nutrients.

PROMOTION OF INDIGENOUS FERTILIZER INDUSTRY

3. The Committee note that despite the stated objective of NBS Policy to improve growth of indigenous fertilizer industry, production of P&K Fertilizers by the indigenous fertilizer industry declined. Since 2003-04, the number of indigenous plants, and their installed capacities, remained static. Though the number of plants remained the same even in 2013-14, installed capacity increased marginally. The Committee are distressed to find that in a span of ten years, no significant achievement have been made in the growth of indigenous fertilizer plants and their production level. This is even more distressing to note that although NBS policy was announced in 2010, the result has been very pathetic as production of P & K fertilizers by the indigenous fertilizer industry declined i.e. a phenomenon which is just opposite to one of the objections of the NBS policy. The Committee also note that in order to ensure long term availability of raw materials/ intermediaries, Indian companies are encouraged to enter long-term off-take contracts at concessional rates, Joint Ventures to acquire mines in resource rich countries. The Committee further note that under the NBS Policy number of Single Super Phosphate (SSP) units have increased from 73 in 2008-09 to 100 in 2014-15 and the production of SSP has also increased. While appreciating the efforts of the Department to promote indigenous production of fertilizers, the Committee find it inadequate. The Committee, therefore, recommend that the Department take pro-active measures to encourage/enhance investment in the fertilizer sector in

close co-ordination with MoF and introduce target oriented implementation of NBS policy in an effort to increase the domestic production of fertilizers and SSP units.

TIME BOUND CLEARANCE OF PENDING PROFORMA-B

4. The Committee note that the outstanding amount of Rs.50,587 crore of Proforma-B for the period 2007-08 to 2009-10 has been brought down to Rs. 427.85 crores as on 05.01.2016. Further, the amount of outstanding Proforma-B for the period from 2007-08 to 2015-16 is Rs.23,570.80 crore as compared to outstanding Proforma-B of Rs.50,587 crore for the period from 2007-08 to 2009-10. The Committee, however, find that there is no specific mechanism in place to ensure that States furnish Proforma-B certificates in time. The Department of Fertilizers has stated that the responsibility to issue the quantity certificate lies with the State Governments. Department of Fertilizers has no other option but to pursue the matter with the State Government regularly and make efforts to clear the pendency of Proforma-B. Though the DoF has claimed to have taken a number of measures towards reducing the pendency of Proforma-B, the Committee feel that the progress made is not satisfactory especially in view of advances in IT which in this case appear to have not been leveraged. The Committee, therefore, recommend that a time-bound action plan may be put in place to clear pendency of Proforma-B. The Committee suggest that the monitoring mechanism of pendency of Proforma-B need to be strengthened and penalty be imposed on States, in the form of reduced subsidy grant, for any delay in the submission of quantity certificates.

FIXING RESPONSIBILITY AND ACCOUNTABILITY FOR EXCESS LUMP SUM FREIGHT SUBSIDY PAYMENT

5. The Committee note that under the NBS Policy, SSP was made eligible for Secondary Freight subsidy. The element of Secondary

Freight subsidy inbuilt in NBS rates of SSP was Rs.104 PMT which was being paid from May 2010 to December 2010. However, after removal of the Secondary Freight element from NBS Policy, on the recommendation of IMC, a lump sum freight subsidy at the rate of Rs.200 PMT was introduced for SSP and was provided for the period 1 January 2011 to 31 August 2011, without prior approval of CCEA. Approval for the same was obtained ex-post facto from CCEA on 3 July 2012. Audit also pointed out that one of the reasons for according approval to above payment by CCEA was that lump sum freight subsidy payments had already been made to SSP industry till 31 August 2011. The Committee feel that due consideration has not been made by the Department while making the decision to make payment of lump sum subsidy at the rate of Rs.200 PMT instead of Rs.104 PMT which has resulted in excess payment of Rs.25.74 crore. The Committee are aghast at the lackadaisical approach of the Department towards making such an important decision having far reaching consequences. The Committee, therefore, desire to be apprised of the level at which the decision was taken and whether anybody has been made accountable for the excess payment of lump sum freight subsidy made in respect of SSP. The Committee recommend that responsibility may be fixed and necessary action be initiated against the erring officials without any delay and recoveries made whenever due.

STATUS OF RECOVERY OF UNDUE BENEFITS DUE TO USE OF CHEAPER DOMESTIC GAS

6. The Committee note that the Empowered Group of Ministers (EGoM) have directed (February 2012) the Department of Fertilizers to finalize guidelines for effecting recovery of undue benefits that had accrued to P&K manufacturing fertilizer companies which used cheaper domestic gas. Further, pending finalization of guidelines, Minister of State for Chemicals & Fertilizers had also directed (November 2013) the

Department to initiate 'adhoc' recovery. The Committee are dismayed that the Department of Fertilizers have neither finalized the guidelines to effect recovery nor made 'adhoc' recoveries from fertilizer companies for use of cheaper domestic gas till date. The Committee note that the Department has been withholding subsidies in the case of RCF from each monthly subsidy bill, stopped subsidy payment since 10.10.2014 in respect of DFPCL. In respect of GSFC no recoveries are made due to court order restraining the Department not to take any coercive action due to the ad-hoc recovery order. The Committee find that the measures taken by the Department so far for recovery of undue benefits are highly unsatisfactory. The Committee, therefore recommend that guidelines for recovery of undue benefits accrued due to use of cheaper domestic gas may be formulated without any further delay. Moreover the Committee are of the view that recoveries should be effected from the date of implementation of NBS Policy i.e 1 April 2010. The Committee also desire to be apprised of the action taken in this regard.

REASONABLE FIXATION OF BENCHMARK PRICE FOR SUBSIDY

7. The Committee note that benchmark price US$450 considered for fixation of subsidy on DAP for 2011-12 in November 2010, was lower than the prevailing import/procurement rates because of which the fertilizer companies were not able to finalize contracts with international fertilizer suppliers. Moreover, the Government of India lost an opportunity of saving a subsidy of Rs.5555 crore, by not fixing the benchmark price at reasonable level in November 2010. Observing that majority of fertilizer companies were importing/procuring DAP, at rates ranging between US$ 495 PMT and US$ 498 PMT during May 2010 to November 2010, the Committee are unable to understand as to why the Department of Fertilizers have not taken into consideration the prevailing rates while fixing the subsidy on DAP. The Committee, therefore, recommend that before the commencement of the financial

year, prevailing international prices ought to have been taken into account while fixing benchmark price to enable fertilizer companies to enter into contracts with international suppliers for timely procurement of their requirements. The Committee also desire that responsibility of officials may be fixed for not conducting necessary research/analysis of the prevailing international market trends to facilitate informed decision making.

CRITICAL ASSESSMENT OF ALL FQCLS AND LABs

8. The Committee note that the capacity of 78 Fertilizer Quality Control Laboratories (FQCLs) to analyse fertilizer samples that are located in various States consistently remained under-utilized in some States whereas the number of samples tested was more than the capacity in many other States. The Committee feel that provision of quality fertilizer not only enhances agricultural production but also is imperative for maintaining soil health and environment. Therefore, FQCLs are considered as pivotal variables in agriculture. The Committee, therefore, recommend that a critical assessment of all FQCLs and labs may be carried out based on the capacity and work load of each existing lab and necessary upgradation may be undertaken wherever required. The Committee further recommend that underutilized labs may be equipped with proper equipment/apparatuses and sufficient scientists/staff so as to relieve the overburdened labs and allow them to function to their full capacity and potential.

NEED FOR MORE FQCLs AND LABs

9. The Committee note that there are 78 FQCLs and 4 laboratories across the country. The Committee are of the view that the current number of labs is insufficient to provide proper/adequate fertilizer quality monitoring and cater to the demands of an agrarian country like India. The Committee also find that information regarding measures

taken to improve fertilizer quality and formulation of proposals for revamping the mechanism to enforce quality of fertilizers is awaited from the Department of Agriculture, Cooperation and Family Welfare (DAC&FW). The Committee, therefore, recommend that the Department of Fertilizers assume a more proactive role and pursue DAC&FW to finalise the proposals for revamping the mechanism for fertilizer quality control without much delay. The Committee also desire that the Department of Fertilizers undertake a survey and research on the requirement of FQCLs based on which additional FQCLs may be established wherever necessary to facilitate adequate fertilizer quality control and monitoring.

IMPROVED MECHANISM FOR ASSESSMENT OF MSP

10. The Committee note that month-wise and State-wise demand of fertilizers are assessed and projected by DAC in consultation with the State Governments and the findings are conveyed to the Department of Fertilizers as the Department is mandated to fulfil the requirement of the State from the available resources. As pointed out by Audit, the Committee also note that Monthly Supply Plan (MSP) in respect of decontrolled P&K Fertilizers, as issued to fertilizer companies as well as to States, was not based on realistic assessment of requirements. Quantity actually supplied by the companies was being regularized without any link with the quantity mentioned in MSP. The Department of Fertilizers has stated that the actual consumption of fertilizer depend upon actual conditions prevailing during the season, which changes the actual demand of fertilizers by farmers on real time basis. Monsoon is the prime factor for assessment of fertilizer consumption, which is very unpredictable. While concurring with the rationale behind the argument, the Committee recommend that a more robust mechanism of assessment may be devised in co-ordination with all concerned Ministries/ Departments and weather experts so as to bridge the gap

between predicted requirements of fertilizers and the actual requirement of fertilizers. The Committee also recommend that to supplement the strengthened mechanism, the Department also need to put in place a contingency plan for unforeseen events and the unpredictable monsoon.

ENSURING REASONABLE FIXING OF MRPs BY FERTILIZER COMPANIES

11. The Committee note that under the NBS Policy, fixing of MRPs was left open for fertilizer companies to be fixed at a reasonable level. The Committee note that the Department has appointed Cost Accountants for analysis of cost data, to be mandatorily submitted by the fertilizer companies, to find out reasonableness of MRPs fixed by the companies. However, the Committee find that there is no provision for examining reasonableness of MRPs fixed by fertilizer companies prior to 2012-13. The Committee recommend that since NBS Policy was implemented with effect from in April, 2010, the Department should extend the verification cost data of fertilizer companies from the date of introduction of NBS Policy and accordingly pursue the fertilizer companies to submit the cost data sheets for the period prior to 2012-13 as well. The Committee desire that responsibility may also be fixed for any anomaly found in the cost data sheets and appropriate penalty may be imposed against the erring officials. The Committee also recommend that the Department may issue clear instructions to all fertilizer companies on the cost components that are mandatorily required for judging admissibility for providing subsidy so as to avoid unnecessary loading of irrelevant cost components/data.

NEW DELHI;
14 March, 2017
23 Phalguna, 1938 (Saka)

PROF. K.V. THOMAS
Chairperson,
Public Accounts Committee